



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0154	Title:	Review income tax credits
Primary Sponsor:	Hollandsworth, Roy	Status:	As Amended

- ☐ Significant Local Gov Impact ☐ Needs to be included in HB 2 ☒ Technical Concerns
☐ Included in the Executive Budget ☒ Significant Long-Term Impacts ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	\$18,649,828
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$18,649,828</u>

Description of fiscal impact: HB 154, as amended, sets termination dates for 26 personal income or corporate income tax credits. The Revenue and Transportation Interim Committee is to review each of the 26 tax credits and make recommendations to the legislature about whether to extend the termination date. The legislature may then extend the termination dates by amending the appropriate statutes. Under current law, none of the 26 tax credits have termination dates set. The elimination of tax credits in CY 2018 would result in an increase in general fund revenue of \$18,649,828 for FY 2019. The elimination of tax credits in future years will result in significant long-term fiscal impacts.

FISCAL ANALYSIS

Assumptions:

1. Under current law, a majority of tax credits available through the individual income tax and corporate income tax do not have an expiration date. HB 154 sets termination dates for 26 of the individual and corporate income tax credits.

2. HB 154 does not change the conditions for any of the 26 credits. It is therefore assumed that the most recent costs, revenues, and numbers of credits for each of the 26 credits examined will be consistent with future years' costs, revenues, and numbers of credits after being adjusted for the estimated growth rates for the credits.
3. HJ 2 projects that the elderly homeowner/renter credit will not increase from FY 2014 through FY 2017. HJ 2 also projects that all other tax credits will increase by 15.4% in FY 2014, 5.0% in FY 2015, 5.4% in FY 2016 and 4.5% in FY 2017. OBPP estimated growth rates project that the elderly homeowner/renter tax credit will not increase from FY 2018 through FY 2019. OBPP estimated growth rates also project that all other tax credits will increase by 4.31% in FY 2018 and 4.31% in FY 2019
4. HB 154 sets a termination date of December 31, 2017, for seven tax credits, with each of the seven tax credits listed in the table below. The total credit amounts claimed for the seven credits for FY 2013 were \$20,209,423. Based on actual FY 2014 individual income tax data, and projected corporate income tax credit amounts, the projected total credit amounts for the seven credits were \$19,781,102 for FY 2014.

Projection of Credits Claimed Set to Expire December 31, 2017 under HB 154 as Amended						
Credit	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
	Total Value	Total Value	Total Value	Total Value	Total Value	Total Value
Contractor's Gross Receipts Credit	\$5,863,392	\$6,156,562	\$6,489,016	\$6,781,022	\$7,073,284	\$7,378,142
Alternative Energy Systems Credit	\$632,607	\$664,237	\$700,106	\$731,611	\$763,143	\$796,035
Energy Conservation Tax Credit	\$4,536,016	\$4,762,817	\$5,020,009	\$5,245,909	\$5,472,008	\$5,707,852
Elderly Homeowner / Renter Credit	\$8,396,128	\$8,396,128	\$8,396,128	\$8,396,128	\$8,396,128	\$8,396,128
Elderly Care Tax Credit	\$74,466	\$78,189	\$82,412	\$86,120	\$89,832	\$93,704
College Contribution Tax Credit	\$278,493	\$292,418	\$308,208	\$322,078	\$335,959	\$350,439
New and Expanding Industry Credit	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$19,781,102	\$20,350,351	\$20,995,879	\$21,562,868	\$22,130,354	\$22,722,299

5. The seven tax credits HB 154 sets to expire on December 31, 2017, are projected to have a combined value of \$22,130,354 in FY 2018, and \$22,722,299 in FY 2019, based on the projected growth rates provided by HJ 2 and the OBPP.
6. The elderly homeowner/renter credit is a refundable credit, which means that any credits claimed result in a direct reduction in income tax revenue. The other six tax credits set to expire at the end of TY 2017 are not refundable, which means tax revenue will not decrease in proportion to the size of the tax credit claimed.
7. Based on individual income tax records for TY 2012, it is estimated that the seven income tax credits resulted in a decrease in income tax revenue collections of \$17,556,631 for FY 2013. For TY 2013, the same seven credits resulted in a decrease of \$16,544,719 for the general fund during FY 2014.

Liability (Revenue) Reduction due to Tax Credits Set to Expire December 31, 2017 under HB 154 as Amended						
Credit	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Contractor's Gross Receipts Credit	\$3,460,705	\$3,633,740	\$3,829,962	\$4,002,311	\$4,174,810	\$4,354,745
Alternative Energy Systems Credit	\$481,721	\$505,807	\$533,121	\$557,111	\$581,123	\$606,169
Energy Conservation Tax Credit	\$3,925,959	\$4,122,257	\$4,344,859	\$4,540,377	\$4,736,068	\$4,940,192
Elderly Homeowner / Renter Credit	\$8,396,128	\$8,396,128	\$8,396,128	\$8,396,128	\$8,396,128	\$8,396,128
Elderly Care Tax Credit	\$32,052	\$33,655	\$35,472	\$37,068	\$38,666	\$40,332
College Contribution Tax Credit	\$248,154	\$260,562	\$274,632	\$286,990	\$299,360	\$312,262
New and Expanding Industry Credit	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$16,544,719	\$16,952,149	\$17,414,174	\$17,819,986	\$18,226,154	\$18,649,828

8. Based on HJR 2 and OBPP growth rates, the elimination of the seven tax credits at the end of TY 2017 would increase income tax collections, and general fund revenue, by \$18,649,828 for FY 2019.
9. HB 154 also sets an expiration date of December 31, 2019, for six individual and corporate income tax credits, which are listed in the table below. When combined, the six tax credits had a combined value of \$31,969,505 for FY 2013 and \$28,540,296 for FY 2014. Based on forecasted growth rates, the six tax

credits will have a combined value of \$35,913,403 in FY 2019. The elimination of the six credits in TY 2019 has the potential to increase general fund revenue by up to \$39,075,852 in FY 2021.

Projection of Credits Claimed Set to Expire December 31, 2019 under HB 154 as Amended						
Credit	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Geothermal System Credit	\$313,920	\$329,616	\$347,415	\$363,049	\$378,696	\$395,018
Historic Building Preservation Credit	\$492,477	\$517,101	\$545,024	\$569,550	\$594,098	\$619,704
Capital Gains Tax Credit	\$27,523,134	\$28,899,291	\$30,459,852	\$31,830,546	\$33,202,442	\$34,633,468
Adoption Credit	\$210,765	\$221,303	\$233,254	\$243,750	\$254,256	\$265,214
Dependent Care Assistance Credit	\$0	\$0	\$0	\$0	\$0	\$0
Refund Income Tax / Prop Tax	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$28,540,296	\$29,967,311	\$31,585,546	\$33,006,895	\$34,429,492	\$35,913,403

10. HB 154 sets an expiration date of December 31, 2021, for six individual and corporate income tax credits, which are listed in the table below. When combined, the six tax credits had a combined value of \$475,292 for FY 2013 and \$392,589 for FY 2014. Based on forecasted growth rates, the six tax credits will have a combined value of \$494,000 in FY 2019. The elimination of the five credits in TY 2021 has the potential to increase general fund revenue by up to \$584,844 in FY 2023.

Projection of Credits Claimed Set to Expire December 31, 2021 under HB 154 as Amended						
Credit	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Alternative Energy Production Credit	\$114	\$119	\$126	\$131	\$137	\$143
Recycling Tax Credit	\$382,014	\$401,114	\$422,774	\$441,799	\$460,841	\$480,703
Alternative Fuel Credit	\$8,183	\$8,592	\$9,056	\$9,464	\$9,872	\$10,297
Mineral and Coal Exploration Credit	\$29	\$30	\$32	\$33	\$35	\$36
Oilseed Crushing and Biodiesel Production Credit	\$0	\$0	\$0	\$0	\$0	\$0
Biodiesel Blending and Storage Credit	\$2,250	\$2,363	\$2,490	\$2,602	\$2,714	\$2,831
Total	\$392,589	\$412,219	\$434,478	\$454,030	\$473,599	\$494,011

11. HB 154 sets an expiration date of December 31, 2023, for seven individual and corporate income tax credits, which are listed in the table below. When combined, the seven tax credits had a combined value of \$3,324,996 for FY 2013 and \$3,497,441 for FY 2014. Based on forecasted growth rates, the seven tax credits will have a combined value of \$4,400,971 in FY 2019. The elimination of the seven credits in TY 2023 has the potential to increase general fund revenue by up to \$5,668,970 in FY 2025.

Projection of Credits Claimed Set to Expire December 31, 2023 under HB 154 as Amended						
Credit	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Dependent Care Assistance Credits	\$13,525	\$14,201	\$14,968	\$15,642	\$16,316	\$17,019
Infrastructure User Fee Credit	\$373,524	\$392,200	\$413,379	\$431,981	\$450,599	\$470,020
Research Activities Tax Credit	\$128,676	\$135,109	\$142,405	\$148,814	\$155,227	\$161,918
Empowerment Zone Credit	\$0	\$0	\$0	\$0	\$0	\$0
Insurance for Uninsured Montana's Credit	\$183,122	\$192,278	\$202,661	\$211,781	\$220,908	\$230,430
Emergency Lodging Credit	\$0	\$0	\$0	\$0	\$0	\$0
Insure Montana Health Insurance Credit	\$2,798,595	\$2,938,524	\$3,097,205	\$3,236,579	\$3,376,075	\$3,521,584
Total	\$3,497,441	\$3,672,313	\$3,870,618	\$4,044,796	\$4,219,126	\$4,400,971

12. The Department of Revenue does not expect to incur any additional costs as a result of HB 154.

<u>Fiscal Impact:</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
<u>Department of Revenue</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<u>Expenditures:</u>				
TOTAL Expenditures	\$0	\$0	\$0	\$0
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$0	\$0	\$0	\$0
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$18,649,828
TOTAL Revenues	\$0	\$0	\$0	\$18,649,828
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	\$0	\$0	\$18,649,828

Long-Term Impacts:**Department of Revenue**

1. HB 154 sets 19 tax credits to expire after FY 2019. In FY 2014, these 19 tax credits had the potential to reduce general fund revenue by \$32,430,326. Based on HJ 2 and OBPP growth rates, the expiration of the 19 tax credit has the potential to increase general fund collections by \$52.5 million in FY 2025. When combined with the seven credits set to expire in 2017, the expiration of the combined 26 credits could increase general fund revenue by up to \$77.5 million in FY 2025.

Technical Notes:**Department of Commerce (DOC)**

1. The bill causes the tax credits that are available to borrowers in the Infrastructure Loan Program (17-6-316, MCA) operated by the Board of Investments (BOI) to be subject to termination on December 31, 2023, and every 8 years thereafter. If the Infrastructure Loan Program tax credits were terminated, infrastructure loans become regular commercial loans, with additional restrictions.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date